

MEMORANDUM

Date: August 16, 2011

To: Cal Expo Board of Directors

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Subject: **Cal Expo Renewal Project: Responses to Questions Posed by Cal Expo Board of Directors from June 24, 2011 Presentation**

On June 24, 2011 Cal Expo's consulting team presented preliminary recommendations regarding: (1) a conceptual plan for redevelopment of the existing Cal Expo site; (2) a conceptual plan for redevelopment of core fairgrounds; (3) a land use entitlement and governance approach related to proposed private non-fair development; and (4) an implementation, marketing, and property disposition strategy related to the proposed private non-fair development. The specific questions posed by the Cal Expo Board at that meeting are included below along with our corresponding responses.

Evaluation of Physical Site Conditions

1. What is the width of the easement related to the existing 72" to 78" sewer interceptor line on the existing Cal Expo site?

The width of the existing easement associated with this sewer interceptor line is twenty (20) feet.

2. What is "NEMDC"?

NEDMC is the acronym for the Natomas East Main Drainage Canal ("NEMDC")

3. What is the estimated cost to relocate existing utilities on the western edge of the site in order to make that area suitable for private non-fair development?

The estimated cost to relocate existing utilities on the western edge of the site is approximately \$2,600,000 (in 2011 dollars).

Conceptual Development Plan

4. Please explain more clearly the existing facilities that are planned to remain and those that are planned to be refurbished or removed; new facilities.

There is not a "definitive" list of facilities that will need to be removed or refurbished. Rather, facilities renovated or replaced will be based upon how the project is phased. For instance, there will not likely

be a need to replace anything other than parking during the initial phases of project development. After that it could be “in-kind” replacement, whereas a building or facility could be replaced or renovated if management and the Board decided that it needed renovation or replacement. As such, after the first phase, much of what transpires is discretionary.

There is a “list” of buildings and facilities that management and the Board have determined as desired elements of the fair, but they do not necessarily have to be built for the fair to remain functional.

5. How will Cal Expo determine the “need” for the proposed refurbishment, expansion or new facilities?

The need for new facilities and expansion will ultimately be determined by the Cal Expo Board of Directors based on recommendations by Cal Expo executive staff. From an economic perspective, the need for refurbishment, expansion, or new facilities will arise if the loss of existing income and value from obsolescence of facilities exceeds the cost of remodeling or replacing such facilities; and the gain in additional income and value from expanding or building new facilities exceeds the cost of creating such facilities.

6. How much parking is proposed versus the existing amount of parking (acres / spaces)?

Cal Expo currently has approximately 96 acres of dedicated on-site parking (approximately 12,000 based on 125 spaces per acre). In comparison the conceptual redevelopment plan would provide for approximately 130 acres (approximately 16,000 spaces based on 125 spaces per acre).

7. What is the estimated cost of the proposed redevelopment of the existing fairgrounds?

Site preparation costs associated with phase 1 redevelopment would total an estimated \$9.7 million (see page 22 of the Cal Expo Renewal Report: Task 1 - Positioning Cal Expo Site to Obtain Highest Returns dated August 16, 2011). The potential phase 2 redevelopment costs are estimated to range from \$7.4 million to \$10.1 million (see page 25 of the report). Phases 3 and 4 of the redevelopment are estimated to total \$47.5 million (see page 28 of the report).

8. What is the estimated income / revenue associated with the proposed expanded or new facilities? How does this compare to income / revenue of existing facilities?

As previously indicated the conceptual redevelopment plan for the fairgrounds portion of the Cal Expo site is a vision for future improvements to the fairgrounds over a long-term / extended period of time. Cal Expo should prepare a specific business plan related to prioritized phased implementation of planned improvements (including upgrade / modernization, expansion or replacement of existing facilities and development of new facilities) based on criteria such as when the demand for land-value-increasing uses will support such improvements, when Cal Expo’s revenue versus cost ratio is projected to be enhanced by such improvements, and when identified funding is available for carrying out the subject

9. How much of the planned redevelopment could be accomplished with the projected amount of revenue Cal Expo would receive from disposition of the +/- 120 acres designated for private non-fair development? What is the projected timing for receipt of such revenue?

Certain facilities will need to be replaced and / or relocated as a result of the proposed private non-fair development on the site. In addition, the site will need to be prepared to accommodate new private non-fair development in terms of utility relocation and flood control. The extent of the planned redevelopment of the fairgrounds will be in direct relation to the amount of projected revenue received by Cal Expo from the proposed private non-fair development. As reviewed in the Cal Expo Renewal Report: Task 1 - Positioning Cal Expo Site to Obtain Highest Returns, the timing for disposition of the area designated for private non-fair development could be as early as it takes to complete preparation of the Cal Expo

Master Development Plan and certification of the appropriate environmental review (perhaps within the next 18 to 24 months). The timing is likely to be sooner if the mix of uses emphasizes retail and institutional uses. If residential uses are a primary use, then it will likely be most land value enhancing if the residential parcels are disposed of over time to capture improvements in the residential market and general economy and benefit from the enhanced image of the “neighborhood” created from the prior residential development on the site. In this case, it could take approximately six to eight years from now,. There, are of course no assurances that other political, economic or financial events or other factors arise to cause the timing to be different than forecast.

10. Is there a need to retain the “historic” entrance from Exposition Boulevard or can the main entrance be better located in relation to the parking areas and pedestrian entry gates to the fairgrounds and still provide for the desired image / visibility from Exposition Boulevard?

Retaining the historic main entrance to Cal Expo is more symbolic than functional. A new main entry to the fair will be designed at what is now called the East Gate. Depending upon needs, the current main entry could be redeveloped as part of the non-fair development as a way of increasing available acreage.

11. What other revenue sources are being contemplated to fund the entire redevelopment of the fairgrounds (e.g. tax increment)?

Potential sources include property tax increment, special assessment districts or community facility districts, potential federal, state, and local grant and loan programs, proceeds from the sale or leasing of land, proceeds from signage or billboard advertising, proceeds from potential cell tower rentals, or from increasing revenues from vendors and other aspects of fair operations (including potential future license and sponsorship opportunities).

Market Demand and Estimated Supportable Land Values

12. Please explain the market demand / support for the proposed private non-fair development / uses?

The Cal Expo Development Plan Alternatives Analysis dated September 24, 2010 included information and findings regarding demand for residential, retail, and office uses. The summary of key findings is presented in Chapter V entitled Retail Demand / Development Opportunity and Residential Demand / Development Opportunity.

13. What is the role of Cal Expo in regard to the development / build-out of the area designated for private non-fair development / uses?

Because Cal Expo does not face traditional carrying costs like a private developer would incur and does not need to dispose of land on a wholesale basis, Cal Expo can dispose of land when market opportunities present themselves and capitalize on the appreciation of the enhancement of the asset it helps bring about through its land stewardship. The role of Cal Expo is that of a “steward of the land”. As part of its land stewardship, Cal Expo will direct and manage the enhancement of the land designated for private non-fair development through the steps outlined in the Cal Expo Renewal Project Report: Task 1 - Positioning Cal Expo Site to Obtain Highest Returns dated August 16, 2011, including land positioning, marketing and entitlement through disposition (via sale or lease) to selected private sector entities. The land stewardship role of Cal Expo does not extend to actual financing or construction of such private non-fair development or uses. This requires implementation of the asset management enhancement and property disposition process summarized below.

California State Fair & Exposition
Implementation of Asset Management and Property Disposition Strategy

TASK 1	TASK 2	TASK 3	TASK 4	RESULTS
POSITION SURPLUS PROPERTY TO GENERATE HIGHEST OBTAINABLE VALUES	IMPLEMENT DISPOSITION MARKETING PROGRAM	REVIEW PROPOSALS AND MAKE DEVELOPER SELECTION	NEGOTIATE AND MONITOR CONTRACTS	CLOSE ESCROW AND COLLECT PURCHASE PRICE
Obtain Funds to Advance Pre-Development Activities	Test Market Development Options	Compare and Review Proposals	Negotiate Purchase and Sale Agreement on Behalf of Cal Expo	Collect Dollars
Conduct Site Due Dilligence	Begin / Refine Marketing Program	Recommend One or More Potential Buyers / Developers / Users	Coordinate with State DGS	Fund Modernization Improvements
Conduct Stakeholder Outreach	Prepare Offering Solicitation	Criteria:	Negotiate and Execute Other Agreements Related to Land Use Approvals and Funding (i.e. Development Agreement)	
Refine Land Use Program and Conceptual Redevelopment Plan	Prepare Supplemental Information Package	- Price and Participation Offered		
	Project Web Site Design	- Time Expected to Satisfy Conditions of Closing Escrow		
Identify Financing Sources	Prepare Advertisements	- Likelihood of Receiving Land Use Approvals	Monitor Compliance with Terms and Conditions of Contracts	
Recommend Marketing, Approvals and Disposition Strategy	Contact Likely Interested Parties	- Advantages / Disadvantages in Helping to Secure Entitlements		
	Bidder Conferences / Property Tours	- Cost of Potential Mitigation Measures		
ENVIRONMENTAL PROCESSING AND APPROVALS				



NB 13

14. What is the estimated net value of the area (approximately 120 acres) designated for private non-fair development?

The estimated obtainable value is approximately \$57.7 million as described in Chapter V, page 33 of the Cal Expo Renewal Report: Task 1 - Positioning Cal Expo Site to Obtain Highest Returns dated August 16, 2011.

15. What is the estimated value (per square foot) for the proposed private non-fair development area by type of land use? What is the estimated timing?

Estimates of obtainable value by use and estimated overall obtainable value are presented in in Chapter V, Table V-2, page 33 of the Cal Expo Renewal Report: Task 1 - "Positioning Cal Expo Site to Obtain Highest Returns. This information indicates that the estimated net value is approximately \$10 per square foot for residential uses and approximately \$15 per square foot for commercial uses for an average of \$12 per square foot. In terms of timing – potentially upon completion of the entitlement and marketing process, particularly if less residential uses are involved because retail and institutional uses are more likely to be in the position to pay optimal prices sooner than residential uses..

16. What was the estimated value of the property at the "peak" of the market?

Given that at the peak of the market, a market responsive financially feasible land use program had not been entitled for the site, it is speculative to estimate what the site could have sold for at the peak. In addition, land purchased at the peak of the market was not frequently subsequently developed and operated profitably. In general, however, obtainable land prices have declined in many markets by more than 50 to 60 percent from the peak. Sacramento has not been immune to the land value-

deflating pressures of falling home prices and large vacancies in the inventory of nonresidential uses, in addition to significant unemployment.

17. How can Cal Expo address the potential issues (e.g. noise, smells, parking, lights, etc.) associated with locating new residential development in close proximity to the fairgrounds?

The planning and placement of the residential will be structured so as to minimize to the extent practical exposure to noise, odors, parking, and lighting associated with the Fair. Sound walls, and other buffering devices will be used to minimize the impacts. Cal Expo will need residential developers / builders to inform buyers of the housing units that the fair intends to stay at the site, to provide a thorough description of fair activities, days, hours, etc. This may not prevent nuisance lawsuits but should prevent the award of damages. In addition should institutional use or other uses be attracted that will support a comparable or higher amount of land value than residential uses, a priority might be given to such uses.

Recommended Land Use Entitlement Concept

18. What is the “role” of the City of Sacramento in regard to approval of the master development plan for the proposed private non-fair development area?

The intent of the proposed land use entitlement and governance approach is to have the City of Sacramento participate in the preparation and approval process for that portion of the proposed Cal Expo Master Development Plan that addresses the areas within the existing Cal Expo site designated for private non-fair development.

19. Is legislation needed in order for Cal Expo to be the lead agency per California Environmental Quality Act for the proposed private non-fair development?

An overall legislative proposal that is being prepared by Cal Expo for consideration by the Cal Expo Board of Directors will address the specific authorities and responsibilities indicated in the proposed land use entitlement and governance approach, including discretionary actions for land use, development, environmental review, disposition of property, etc. as outlined below. The proposed subject legislation will be presented to the Cal Expo Board of Directors for consideration.

Financing of Public Infrastructure

20. How will the public infrastructure and improvements needed to support the proposed fairgrounds redevelopment and private non-fair development be financed?

Development on the Cal Expo site will require the construction of infrastructure improvements, including the recommended solutions to the potential flooding problems that would limit the redevelopment of the property. Cal Expo, State Fair Leasing Authority, City of Sacramento and various private sector development partners will need to play a key role in refining and implementing the specific financing strategy

The following section outlines various potential sources of funding that could be used to finance the public infrastructure needed to accommodate the planned redevelopment of the existing Cal Expo site – including both the fairgrounds area and area designated for private non-fair development. The potential sources of funding include public financing mechanisms (e.g. special assessment districts), federal, state regional and local programs; reinvestment of local impact fees; and public-private partnership mechanisms (e.g. California Communities Joint Powers Authority).

Next Steps

21. What are the next steps (and timing) in the process for the Cal Expo Renewal Project based on the process endorsed by the Cal Expo Board in December 2010?

The Cal Expo consulting team recommends that the Cal Expo Board of Directors direct the Cal Expo executive staff and consulting team to proceed with Task 2 - Implement Disposition Marketing Program of the strategic asset enhancement process endorsed by the Cal Expo Board in December 2010. The process for disposition of the existing Cal Expo site designated for private non-fair development will be consistent with approved policies and procedures of the State of California, Department of General Services. This recommendation does not bind the Cal Expo Board of Directors in any way regarding disposition of property; it merely is an intent to test the market for prospective developers, buyers and / or users. The draft Request for Proposals solicitation document would be submitted to the Cal Expo Board for its consideration at a future meeting.

22. Where does Cal Expo get funding for the next task(s) associated with the Cal Expo Renewal Project?

In December 2010 the Cal Expo Board authorized a budget of \$220,000 to complete Task 1 - Position Surplus Property to Generate Highest Obtainable Value. Not all of the allocated funding will be used to complete the Task 1 scope of work – in fact there will be approximately \$85,000 in cost savings. The estimated cost to complete Task 2 (see attached draft scope of work) is within that amount; therefore sufficient funding is currently expected to be available from cost savings from Task 1 to complete Task 2: Implement Disposition Marketing Program.

TASK 2: SCOPE OF WORK - IMPLEMENT PROPERTY DISPOSITION MARKETING PROGRAM

A. Prepare and Issue Solicitation Package

Marketing services to be required to monetize value of property include: test marketing of development options with buyers/developers to obtain critical feedback and begin / refine marketing program; preparation of offering solicitation (e.g. Request for Proposals (RFP)); preparation of supplemental information package containing market and other information that assists space users and developers and their financing sources with their due diligence; if determined to be worthwhile design of project web site; preparation of advertisements; contacting likely interested parties; responding to interested parties; and holding bidders conferences and property tours.

- Test market development options
- Begin / refine marketing program
- Prepare offering solicitation
- Prepare supplemental information package
- Prepare web site design
- Prepare advertisements
- Contact likely interested parties
- Conduct bidder conferences and property tours

B. Review Proposals and Select Private Developer(s)

Prepare a report that compares all proposals and recommends one or more potential buyers / developers / users. Criteria will include the price and participation offered; the time expected to satisfy all conditions of closing escrow; the likelihood of receiving land use approvals; the advantages and disadvantages each proposer has in helping to secure entitlements; and the cost of any likely mitigation measures.

- Compare and review proposals
- Recommend one or more developers / buyers / users